



## Grama Vidiyal Microfinance Limited

### Indian MFI Trust-Series XII

A conditional rating of [ICRA]A-(SO)<sup>†</sup> has been assigned to PTC Series A1, issued by Indian MFI Trust-Series XII, backed by micro loan receivables pool, originated by Grama Vidiyal Microfinance Limited (GVMFL).

**Table 1: Rating Summary**

Description	Principal (Rs. Crore <sup>*</sup> )	Payout Maturity	Rating
PTC Series A1	24.00	March 2016	[ICRA]A-(SO)!
Originator's Residual Share	2.67		
<b>Total</b>	<b>26.67</b>		

! indicates that the rating is conditional

The conditional ratings are subject to the fulfillment of all conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction and GVMFL furnishing to ICRA an independent legal opinion on the transaction from the transaction legal counsel. The conditional ratings are based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of (i) cash collateral of 6.25% of the pool principal to be provided by the Originator, (ii) principal subordination of 10% of the pool principal for PTC A1 (i.e. Originator's residual share); (iii) subordination of the Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

The selected pool consists of unsecured micro loans (less than or equal to Rs. 25,000 each), and is characterised by moderate residual tenure of contracts (20 months), moderate average seasoning of 21.1 weeks and no overdue on the selected loans as of date. The current pool comprises of General Loans<sup>†</sup> only. According to the transaction structure, the entire pool of selected contracts will be assigned to a Special Purpose Vehicle (Trust) at par. The Trust will issue a single series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC A1 to the Trustee will be 90% of the total pool principal i.e. Rs. 24.00 crore. Any payment to the Originator will be made only after all the PTC Payouts are fully made. The yield to the PTC A1 is fixed at a rate less than the pool yield.

Though the pool would be receiving cashflows on a weekly basis, payouts to the PTCs would be made on a monthly basis. Every month, only the interest payment is promised to PTC A1. The principal repayment to PTC A1 is promised on the last payout date. However, the balance monthly excess cashflow— excess of collections from the loan pool over the scheduled PTC A1 payouts—will be used to accelerate the principal amortisation of PTC A1.

Based on the analysis of the past performance of GVMFL's micro loan portfolio and the expected future performance of the selected pool of loans, ICRA believes that the credit support provided has been adequately sized to cover the credit / liquidity risk in the transaction.

<sup>†</sup> For complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

\* 100 Lakh = 1 crore = 10 million

<sup>†</sup> These are Group Loans given to borrowers who are organised in groups of five, where each group member is responsible for repayment by the other group members.



### About the Originator

GVMFL (rated [ICRA]BBB-(stable) for its long term debt programs, [ICRA]A3<sup>‡</sup> for its short term Commercial Paper program and assigned Microfinance grading of M2), a non-deposit taking NBFC, is a microfinance institution based out of Tamil Nadu. Established in 1997, the company provides credit to economically backward women mainly in rural, urban and semi-urban areas through a joint liability (or group lending) mechanism for building productive assets. As of May 2014, GVMFL had a portfolio of Rs. 767 crore, which remains primarily concentrated in the state of Tamil Nadu. The company also has operations in the states of Maharashtra and Madhya Pradesh, where currently a small part of the portfolio is concentrated. Of the total portfolio of GVMFL, the group loan product continues to remain the key product, while the share of Seasonal Loans (contingency loans given for consumption purpose) and individual business loans remains small in the portfolio.

For FY2014, GVMFL reported provisional net profit of Rs. 3.34 crore (0.5% of ATA). The profitability of GVMFL is weaker than comparable peers as operating cost levels continue to be high. The uneven funding pattern has also resulted in high idle cash balances, adversely impacting the yield on deployed funds. Low realised yields combined with high operating cost, and continued high borrowing costs continue to strain the company's profitability. GVMFL's capitalization was stretched at 15.80% as of Mar-14 lower than 16.60% as of Mar-13. In order to support further growth in the portfolio, the company would require additional capital infusion in order to maintain comfortable capital adequacy levels.

The 0+ delinquency level for the overall portfolio of GVMFL was negligible at 0.01% as on May 2014 owing to some write offs in Mar-14. While the credit quality has been good in the past, the borrower segment being people from below poverty line, without adequate credit history or collateral does pose a high potential credit risk in the transaction. Further, the operations-intensive nature of the business makes the servicing role very critical.

In the past, ICRA has assigned ratings to 55 transactions of micro loan receivables originated by GVMFL- to PTCs under 39 transactions and to Purchaser Payouts (and Second Loss Credit Enhancement Provider Payouts in one transaction) under 16 transactions involving bilateral assignment. Of these, 44 transactions have matured. All the ICRA-rated GVMFL transactions have performed well with 100% collections and nil delinquencies till April 2014 payouts. The ratings of instruments in 37 of these transactions have been upgraded till date, on account of good performance of the underlying pools and the availability of adequate credit enhancement for the balance tenure. The ratings of the rated instruments in the rest of the transactions are stable at their initial level.

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<sup>‡</sup> These ratings were revised from [ICRA]BBB(stable) and [ICRA]A2 in May 2013

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